

1. INTRODUCTION:

A Forum held on the Gold Coast in May 2008 addressed a range of 'challenging' and provocative strategic questions in relation to a **more sustainable financial future** for local government. The Forum was intended to start a strategic conversation about these challenges that face the sector – it was not expected that the Forum would finish the conversation or come up with 'the answer'.

It was expected that a **path forward** for the sector to further address these important strategic financial sustainability challenges would be determined.

Section 2 of this document describes the **Way Forward** that LGMA has determined is needed to advance this important strategic debate about local government's future financial sustainability at a sectoral level. This path will culminate in another Forum to be held in conjunction with LGMA's National Congress in Darwin in May 2009.

Section 3 of this document provides a summary of the workshop discussions that occurred at the Gold Coast Forum and emergent themes.

2. THE 'WAY FORWARD' FOR THIS DEBATE:

- Continuing The Conversation

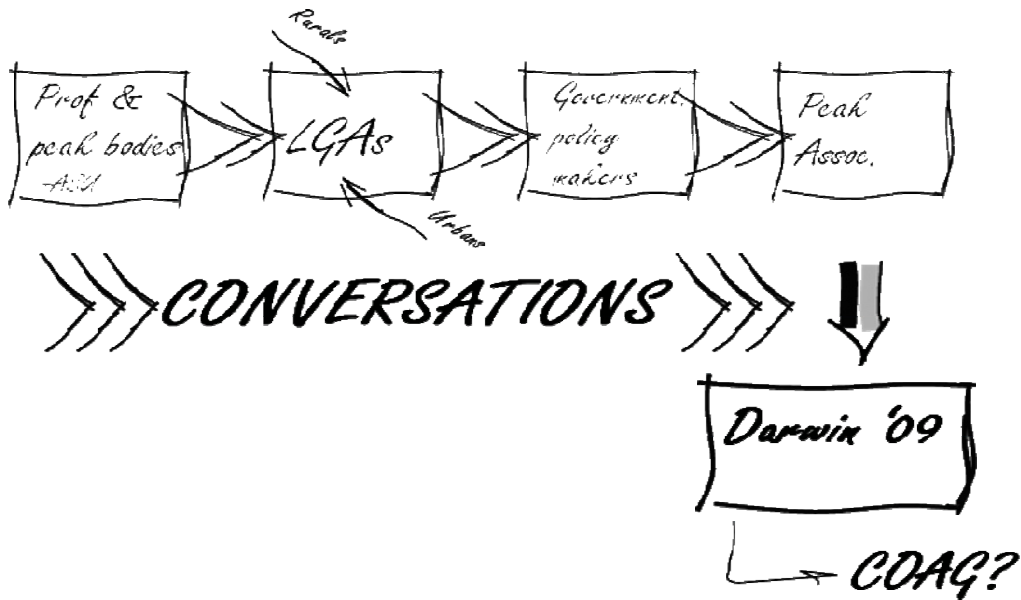
Over the next 8 months, LGMA intends to continue this crucial strategic conversation about local government financial sustainability with key sector interest groups. We want to develop a Vision of what the sector will look like in 2050 in financial structure terms.

The dialogue over the coming months will include:

- ✓ A series of consultation **Forums** with key stakeholder groups (peak professional bodies and associations, urban and metropolitan local authorities, State and Federal government advisers and policy-makers);
- ✓ A series of Issues Papers ("**the Way Forward**") to be issued progressively over that time; and
- ✓ This will culminate in a final Forum to be held as part of the LGMA Congress in Darwin in May 2009.



The 'Conversations' process is illustrated below:



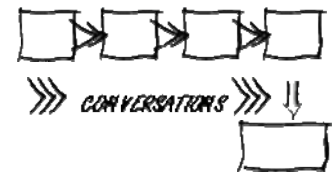
More information about dates and arrangements for these consultations across Australia will be forthcoming.

Why Participate?

This debate about local government’s financial sustainability is strategically crucial to our future, even though it has no easy answer or a clear outcome that is wholly within the sector’s control.

Your input and ideas are important.





3. GOLD COAST FORUM – EMERGING THEMES:

Following introductory presentations to set context, Forum participants addressed the following key topics/questions. Following each topic is a summary of key points and emergent themes of the discussion:

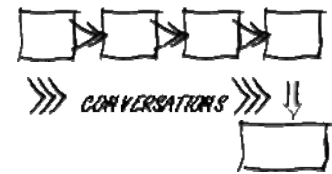
3.1 Local Government Structure, Role and Purpose:

What is the structure, role and purpose of local government under a new federalism that WE can ASPIRE TO IN 2050?

Summary of Forum Discussion Themes:

- Most agreed that a system of LG will still be in existence in 2050. But there will be more regional overlay structures in place by then, possibly with fewer, larger local governments.
- Some opinions were expressed that much larger scale regional government would replace what we today know as local government and the States. The referendum success thresholds built into the Constitution were acknowledged as significant barriers to this outcome.
- The structure within which LG functions is wholly dependent on the role it plays. This can only be defined in the wider context of State and Federal Government roles and boundaries. LG needs recognition and to be valued as a genuine partner in Australia's Federation. Australian local government needs to grow in self-confidence.
- Despite this, participants expressed the view that much more clarity is required about role boundaries to overcome LG being consigned to being effectively a 'mopping up' operation after the Federal and State Governments.
- Some suggested that local government's core role would be specifically defined in the Constitution by 2050. The potential to take on expanded roles would be discretionary and dependent on local need as well as local economic and financial capacity.





- Local government's role in 2050 will focus on:
 - promoting the economic, environmental, cultural and social well-being of the community (present and future);
 - establishing and delivering on the community's vision;
 - stimulating community self-identity and pride and being responsive to community needs;
 - empowering local communities to 'self-determine', within a wider Constitutional framework;
 - facilitating and delivering services, managing assets.
- Whatever the structure and role of local government is by 2050, it was widely agreed that a system where LGAs are autonomous of other levels of government is most desirable. This was preferred to a model where local government becomes (overtly or by default) a 'servant' or 'service delivery agent' for other tiers of government.
- Local government needs to band together as a sector and promote and market a much wider and more confident, positive public image of itself. This will break the narrow and constraining perceptive barriers of 'rates, roads and rubbish' that presently inhibit the sector.

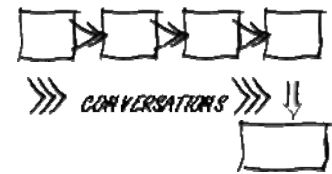
3.2 The Link Between Autonomy and Self-Levied Taxation:

Is a self-levied form of taxation (rates or some other tax) a necessary pre-condition for **genuine autonomy** under a new federalism? Or can local government achieve genuine autonomy (if we have constitutional recognition) whilst being totally dependent on a centrally levied/collected and guaranteed growth source of taxation?

Summary of Forum Discussion Themes:

- There was a strong consensus that a self-levied form taxation was imperative for local government's future.
- The overwhelming view expressed was that a self-levied form of taxation is a foundation stone for genuine autonomy from other levels of government, irrespective of whether or not Constitutional recognition is achieved.

... a way forward



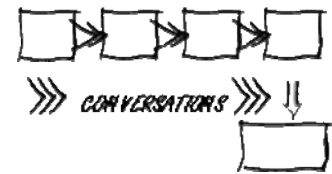
3.3 Local Government Taxes of the Future:

What are the local government taxes of the future under a new federalism?

Summary of Forum Discussion Themes:

- It was generally agreed that, despite widely held concerns about underlying equity and fairness, property rates will continue as the main source of local government revenue raising.
- The equity debate focussed on the wealth tax v. capacity to pay argument and the impact of this on asset-rich/cash poor people (ie; pensioners). Most participants considered this to be a genuine equity drawback for rates. Others disagreed, arguing that this is primarily perception-based only and that, in an economic sense, capacity to pay ought be seen in a long-term context, taking full account of asset wealth (and the income generation potential of that wealth) as well as actual income.
- This argument continues that high asset wealth/cash poor citizens have the option to borrow against asset values and that mechanisms can be established to offset the impact on people such as pensioners.
- From a public policy view-point, it was argued that the structure of local government's taxation regime needs to focus on underlying principles first, with negative or inequitable impacts on individuals or groups dealt with through other off-set measures such as safety nets and remission schemes.
- Despite these issues regarding taxation methods, in a wider revenue management context, it was agreed that councils need to strike a balance between **user pays** revenue sources and broader **community pays** (taxation) sources.
- Practical concerns were expressed about the high level of visibility of rates. Whilst this potentially presents practical and political challenges for councils, it was generally agreed that, if presented in a long-term plan context, these problems can be alleviated.
- Despite these political challenges, in a technical sense, the high visibility of rates (as opposed to other hidden or less transparent forms of taxation) was seen as a positive in terms of its underlying merits as a form of taxation.
- Rate pegging in NSW was universally regarded as counter productive to the long-term autonomy and financial sustainability of local government in that State.

... a way forward



Various other future potential forms of taxation were generally seen as having potential to augment rather than replace rates. (community carbon bank, environment levy, GST share etc.)

3.4 Principles/Models for Distribution of Centrally-Collected Funds:

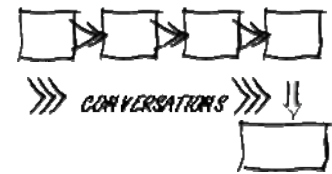
If local government changed to a centrally collected funding model (ie; guaranteed share of GST, tax collections etc. instead of property rating), what would be a fair basis for those funds to be distributed (base, geographic, population etc.)?

Summary of Forum Discussion Themes:

- There was general consensus that the FAGS funding pool needs to be in some way anchored and guaranteed.
- Most supported the principals of grants being 'means tested' and 'needs based'. Whilst most agreed with economic/financial capacity being reflected in grants distribution, arguably contradictory views were also expressed that the allocation of grants needs to be 'non-discriminatory'.
- Strong and different views were expressed about the present minimum grant arrangements and the perceived inconsistency of minimum grants with the needs and capacity principals
- There needs to be universal allocation system across all States/territories that redistributes wealth from more affluent to lower socio-economic capacity local authorities.
- There was limited discussion on whether grants ought be 'as-of-right' and underlying characteristic-based or performance based.

3.5 Geographic, Demographic Scale and Diversity:

How will the local government administrative, governance and fiscal system of 2050 deal adequately with the areas of Australia that is geographically very large and remote, very sparsely populated and experiencing sustained negative population growth? Will there be a 'special administrative category' for large/sparsely populated areas with special

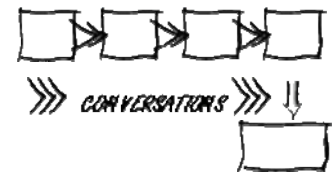


administrative/governance arrangements rules /expectations? Will we see more/larger unincorporated areas of Australia?

Summary of Forum Discussion Themes:

- There was consensus that in future, governance structures and arrangements in different regions will need to reflect the prevailing economic conditions (as opposed to historical conditions) in that region.
- Flowing from this view was an acknowledgement by most participants that we need to move away from a 'one size fits all' approach to defining democratic, governance and administrative structures in regions.
- Potentially, this may mean prescribing base/minimum 'prima-faci' criteria that are required to be met to enable the formation of (or continuation of?) an elected local authority as we currently know it.
- This may be combined with a move to a more 'stratified' structure where democratic, priority-determination and decision-making processes may be allowed to continue at remote local levels, with administrative, planning, financial and other functions (ie; those requiring scale) are centralised or regionalised.
- The view was expressed that larger, regional structures should be considered to address issues faced by large/low population areas. Similarly, the potential role technology can play in delivering governance to remote areas – 'e-government' – was noted.
- It was emphasised that despite all these challenges, ultimately, local government structures needs to reflect underlying communities of interest and the inevitable conflicts that exist between these goals was acknowledged.

... a way forward



4. WHERE DO ALL THESE IDEAS GO?

- Into the 'Melting Pot'?

Sometimes, you may think why participate in these contemplative, visionary discussions and forums where we are trying to address big issues and challenges such as this.

Where does it all go anyway?

Where it all goes is **into the melting pot**. Ideas expressed by local government at forums like this and others that will follow will shape and influence thinking by sector leaders and representatives who are working on papers and submissions that will drive thinking on these issues. They will influence the positions taken on such strategic issues by LGMA and other organisations and the positions advocated through lobbying efforts to other governments.

They are hard questions with no clear-cut answers – but it is worth the effort! Please get involved and have YOUR SAY!

For more information, contact John Ravlic, Chief Executive, LGMA Ph: (03) 9682 9222.

Otherwise, go to www.lgma.org.au

